

3010108
A STUDY OF THE HOME MORTGAGE MARKET
IN HONG KONG

by

LAU YUK-KIN

劉育健

YUEN CHING-PING

阮靜萍

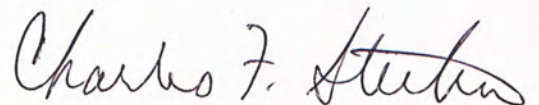
RESEARCH REPORT

Presented to
The Graduate School

In Partial Fulfilment
of the Requirements for the Degree of
MASTER OF BUSINESS ADMINISTRATION

THREE-YEAR MBA PROGRAMME
THE CHINESE UNIVERSITY OF HONG KONG

May 1989



Dr. C.F. Steilen

Advisor

thesis
HG
2040.5
H6 L38

301045

A STUDY OF THE HOME MORTGAGE MARKET
IN HONG KONG

by

YUEN CHING-PING

LAU YUK-KIN

阮靜平

劉育金



In partial fulfillment

of the Requirements for the Degree of
MASTER OF BUSINESS ADMINISTRATION

THREE-YEAR MBA PROGRAMME

THE CHINESE UNIVERSITY OF HONG KONG

May 1992

Charles F. S. ...

Dr. C. F. S. ...

Advisor

ABSTRACT

The home mortgage market in Hong Kong is currently booming and extremely competitive. Banks seeking to maintain and expand their market share must understand consumer attitudes and behaviour and monitor how these change over time. To provide an initial assessment of the home mortgage market, this study has employed the focus group method to gather consumer data, in addition to an extensive search for market information.

It has been shown that there is a strong and stable demand for residential properties and hence home mortgages. In particular, the demand for small and medium sized flats will be sustained in the near future and buyers of such flats will therefore become the prime prospects for banks offering home mortgage products.

The home mortgage products offered by different banks are found to be very similar in their basic terms, i.e. interest rate, advance ratio and repayment

period. Although there are some noticeable differences in other product features, there is not much room for further product differentiation. Nevertheless, it is expected that future competition will take the form of a "product war" rather than a "price war" as has previously been the case.

From the focus group research it has been shown that in seeking a mortgage, consumers attach the greatest importance to the actual mortgage terms, notably the interest rate, offered by different banks. However, non-price factors such as convenience and efficiency are also taken into consideration. To compete effectively in the home mortgage market, banks must understand the needs of their customers and then give them maximum choice and flexibility.

TABLE OF CONTENTS

ABSTRACT	ii
TABLE OF CONTENTS	iv
LIST OF TABLES	vi
ACKNOWLEDGEMENTS	vii
Chapter	
I. INTRODUCTION	1
II. METHODOLOGY	5
Literature Search	5
Personal Interviews	6
Focus Group Research	7
Reasons for Using the Focus Group Method	9
III. HOME MORTGAGE LOAN MARKET	11
Overview	11
Change in Family Structure	14
Purchase Price Vs Rental	16
Income	19
Affordability	21
Conclusion	23
IV. COMPETITIVE PRODUCT REVIEW	24
Introduction	24
Survey Findings	25
Discussion	28
V. CONSUMER ANALYSIS	32
Introduction	32
Research Objectives	33
Research Methodology	33

Research Findings	35
Decision Making Process on Purchase of Residential Properties	36
Financing	37
After-Sale Services	42
Satisfaction	43
Attitudes Towards Early/Partial Payment.	43
Attitudes Towards Trading Up	44
Home Buying Services	44
VI. CONCLUSIONS AND RECOMMENDATIONS	46
Conclusions	46
Recommendations	48
Product Strategies	49
Promotion Strategies	52
Place Strategies	54
Price Strategies	55
Limitations of Present Study	56
Implications for Future Research	57
APPENDIX A: PRODUCT HIGHLIGHTS	59
APPENDIX B: DISCUSSION GUIDE	64
BIBLIOGRAPHY	75

LIST OF TABLES

1. Total Advances to Private Individuals to Purchase Residential Properties (Excluding GHOS and PSPS)	12
2. Relationship between Residential Units Take-up and Registered Marriages	15
3. Relationship between Rental Payment and Purchase Price, Class B: Domestic Units of 40-69.9 Sq. Metres	18
4. Growth of Real Per Capita GDP	20
5. Analysis of Small/Medium Sized Residential Properties	22

ACKNOWLEDGEMENTS

We would like to extend our heartfelt thanks to the following for granting us interviews: Mr Dennis Law, Product Manager Mortgages, HongkongBank; Miss Josephine Wong, Group Product Manager, Citibank; Mr L.K. Li, Senior Loan Officer, Hang Seng Finance Ltd.; Miss Agnes Kwong, Solicitor, W.K. To & Co.; Mr Fred Ma, Solicitor, K.F. Wong & Co.; Mr Desmond Yuen, Assistant to Director, Centaline Agencies Company. Their valuable assistance has contributed greatly to this research project.

Special thanks are due to our supervisor, Dr. Charles F. Steilen. His guidance and advice throughout the project has been invaluable.

Last but not the least, we wish to express our sincere gratitude to Mrs Belinda Fong for typing this report.

CHAPTER I

INTRODUCTION

The property market of Hong Kong has performed very well over the past four years, with the exception of the period from October 1987 to March 1988. This temporary setback was prompted by uncertainty in the wake of the stock market crash and property prices dropped by about 10 percent. However, the market - particularly for residential property - recovered strongly thereafter. During 1988, prices and rentals of residential flats increased by 30 percent on average.¹

Sales of small/medium flats in both urban and suburban locations were extremely buoyant during 1988. This was primarily an indication of the strong underlying demand for such housing units, but can also

¹Hong Kong Economic Times, 19 January 1989, Real Estate Supplement, p.2.

be partly attributed to the Government's decision to reduce Stamp Duty on the purchase of properties.

Against this background, the home mortgage market experienced a dramatic boom. For example, it was reported that HongkongBank doubled its mortgage business in 1988 as compared with 1987.¹ Since home mortgage business is considered to be one of the most secure and stable areas of retail banking, it has attracted fierce competition among those banks with a retail presence. Moreover, this situation is expected to continue and it is envisaged that home mortgage lending will remain one of the core businesses of retail banking for the next decade.

Propelled by keen competition, many banks have recently intensified their marketing efforts and given greater recognition to the need for sophisticated marketing. Promotion budgets have been increased and product enhancements introduced. More and more attention is being paid to customer satisfaction than operational efficiency.

¹Ming Pao, 14 November 1988, p.4.

Hong Kong is well-known for its fast-paced development. As the economy continues to grow and prosper, people's income and aspirations are also rising. Consumers are becoming more and more sophisticated and demanding. Hence, to stay competitive it is imperative for a bank to gauge the changing needs and attitudes of the consumers and to adjust its marketing efforts accordingly.

In this study, the home mortgage market in Hong Kong will be examined with special emphasis on the consumers' buying behaviour and its implications on bank marketing strategy. The research objectives are:

1. To examine the growth and characteristics of the private residential property market in order to identify a target market segment;
2. To ascertain the consumers' awareness and perception of major home mortgage products in the market;
3. To reveal the decision-making process and factors in choosing home mortgage products;

4. To identify possible ways to improve the effectiveness of a bank's home mortgage marketing strategy.

While this study is exploratory in nature, it is hoped that it will provide some insights into the type of marketing strategy a bank should develop in order to capture a larger share of the home mortgage market.

The research has been primarily qualitative in nature and carried out in three phases. The first phase involved the collection and analysis of the available secondary data to help identify the target market. This was then followed by two phases of qualitative research to collect primary data. During the second phase, unstructured interviews were held with the relevant personnel in the industry to collect their views and insights. Then an in-depth study of consumer behaviour was conducted through focus group discussion in the last phase.

Literature Search

The home mortgage market is largely affected by demographic factors, in particular age and income distribution. It is expected that people aged 25 - 40

CHAPTER II

METHODOLOGY

Our research has been primarily qualitative in nature and carried out in three phases. The first phase involved the collection and analysis of the available secondary data to help identify the target market. This was then followed by two phases of qualitative research to collect primary data. During the second phase, unstructured interviews were held with the relevant personnel in the industry to collect their views and insights. Then an in-depth study of consumer behaviour was conducted through focus group discussion in the last phase.

Literature Search

The home mortgage market is largely affected by demographic factors, in particular age and income distribution. It is expected that people aged 25 - 40

with household income of HK\$10,000 plus will be the driving force for using home mortgage facilities. The potential market size and segmentation can be determined when demographic data are studied in conjunction with information on the competitive mortgage products available in the market. To collect such data, the following sources have been explored:

1. Government statistics
2. Newspapers
3. Published reports issued by banks, brokerage firms and estate agents
4. Promotion brochures on home mortgages issued by banks

Personal Interviews

As can be expected, much crucial information is not published. In order to secure some inside views on the marketing aspects of home mortgages, personal interviews with bank personnel, lawyers and real estate agents have been obtained where possible. Through their day-to-day contacts with the public,

such interviewees would have first hand knowledge of customers' preferences and expectations on home mortgage services. At the same time they could provide valuable information on the promotional strategies and tactics of banks in marketing their mortgage products. Therefore, comments from these personnel were highly useful in designing the Group Discussion Guide to be used in the third phase of this research. Data collected included:

1. Consumer expectations towards home mortgage loan products
2. Major criteria on mortgage product selection
3. Promotion strategies
4. Market share of major banks/products
5. Elements of their success in home mortgage business

Focus Group Research

After completing the first two phases, an in-depth study by means of focus group discussion was

carried out. Focus groups involve a group interview led by a moderator. The moderator usually poses some questions about a certain topic of interest and allows the group to discuss each question freely. Such discussion often suggests new information or perspectives that the marketer finds useful.¹

In view of resource limitations and time constraints, only four focus groups have been conducted. Each group consisted of six respondents and one moderator. Two groups of respondents were selected from potential users of home mortgage facilities and the other two from current users. Potential users are defined as those who have the intention to buy residential properties within the next two years and have taken some action in relation to their intention, such as obtaining brochures on new property developments, contacting real estate agents etc. Current users are defined as those who currently own one or more residential properties which are financed by mortgages taken out within the past 2 years.

¹See Runyon and Stewart (1987), p.38.

Reasons for Using the Focus Group Method

To date no quantitative research has been carried out on the home mortgage market. However, before such research can be undertaken on any reasonable scale, exploratory research is required to find out more about consumers and thus develop a suitable questionnaire. The focus group method is an qualitative research technique that can be used to study the decision process of the respondents and their behavior thoroughly. However, there should be an awareness of the strengths and limitations of such a technique before it is used.

Strengths

1. It is less time-consuming than conducting surveys.
2. It achieves the objective of obtaining in-depth information on the decision-making processes and buying behaviour of sample consumers.
3. It helps to generate new ideas for marketing planning.

4. It is relatively cheap and cost-effective (important considerations in the case of this particular study).

Limitations

1. It is difficult to control bias.
2. Sampling errors cannot be monitored.
3. The quality of the results is largely dependant on the skills of the moderator.
4. It does not involve a big enough number of individuals who are representative of the larger consumer groups to permit definitive conclusions to be drawn.

On balance, the focus group method is preferred in view of the time and manpower constraints of the present study.

CHAPTER III

HOME MORTGAGE LOAN MARKET

Overview

As residential properties form a substantial part of the total property market, home mortgage loans now represent a very sizeable business for the financial sector. The total amount of outstanding loans to individuals for the purchase of private residential properties, excluding Government Home Ownership Scheme (GHOS) and Private Sector Participation Scheme (PSPS) flats, amounted to HK\$77.4 billion at the end of 1988. This accounted for 17 percent of total loans and advances for use in Hong Kong. Government statistics show that there was an average 28 percent increase per annum between 1979 and 1988 in home mortgage volume. Details are shown in Table 1.

Table 1

TOTAL ADVANCES TO PRIVATE INDIVIDUALS TO PURCHASE
RESIDENTIAL PROPERTIES (EXCLUDING GHOS AND PSPS)

Year	Loan value in million HK\$	% Growth
1979	8,652	
1980	11,703	35.3
1981	15,514	32.6
1982	16,842	8.6
1983	21,884	29.9
1984	25,452	16.3
1985	31,522	23.8
1986	42,902	36.1
1987	57,915	35.0
1988	77,358	33.6

Source: Hong Kong Monthly Digest of Statistics, various issues, Census and Statistics Department, Hong Kong

Purchasing a flat is an investment for the long term and for many prospective buyers it represents the most important financial commitment of their lifetime. Despite the uncertainties relating to 1997, the property market has not shown any sign of slowdown

or contraction. On the contrary, residential property prices soared by 20 - 30 percent in 1988 over the previous year.¹

According to Government figures, in 1988 there were 1,116,208 people in Hong Kong - or almost one in five in the population - living in their own homes. The total number of sale and purchase agreements registered rose to 66,483, an increase of 21.2 percent over 1987. ²

All of the above data point to a strong and stable demand for residential properties and hence home mortgages.

The demand for residential properties depends on a number of factors, not the least of which are the existence of a stable political framework and long-term economic prosperity. In the short term, the

¹Hong Kong Economic Report, 28 December 1988, p.21

²South China Morning Post, 13 January 1989, p.1

demand is largely influenced by changes in family structure and the propensity to purchase. The latter is linked to affordability - basically a function of property prices, mortgage terms and household income.

Change in Family Structure

The demand for domestic units depends on the formation of households. According to the SRH (Survey Research Hongkong) Media Index, the average household size has been decreasing:

	<u>1986</u>	<u>1987</u>	<u>1988</u>
Average number of persons			
per household	3.80	3.74	3.66

This trend reflects the preference and growing ability of newly married couples to acquire their own home rather than live with their parents. This leads to a strong demand for residential units of 40 - 75 square metres.¹ In 1987, units in this category accounted

¹Property Review 1988, Rating and Valuation Department, Hong Kong

for close to 50 percent of new supply. They are demanded mostly by nuclear families, especially newly married couples. It can be calculated from Table 2 that the correlation between residential units take-up and registered marriages is quite high.¹

Table 2
RELATIONSHIP BETWEEN RESIDENTIAL UNITS TAKE-UP
AND REGISTERED MARRIAGES

Year	no. of units taken-up (X)	Registered Marriages (Y)
1985	29,500	45,056
1986	30,300	43,280
1987	35,100	48,561
1988	33,900	45,231

Source: Property Review 1988 and Hong Kong Monthly Digest of Statistics, various issues

$$\begin{aligned}
 & \text{}^1\text{Correlation Coefficient (r)} \\
 &= \frac{n (\sum XY) - (\sum X) (\sum Y)}{\sqrt{n (\sum X^2) - (\sum X)^2} \sqrt{n (\sum Y^2) - (\sum Y)^2}} \\
 &= 0.77
 \end{aligned}$$

As shown above, the increase in the number of marriages is closely correlated with the increase in the number of households. Records from the Census and Statistics Department show that there was an 18 percent increase in the number of households within the five years from 1981 to 1986. The Department further projected a growth of another 18 percent in the number of households between 1986 and 1991.¹ Such a forecast points to continued growth in the demand for residential properties and hence home mortgages over the next few years.

Purchase Price Vs Rental

From the point of view of an individual in need of accommodation, the alternative to buying a domestic unit and mortgaging it so as to spread the payment over a long period of time is to rent the premises from a landlord. In such cases, the rental payments

¹Hong Kong Monthly Digest of Statistics, October 1988, Census and Statistics Department, Hong Kong

are analogous to mortgage payments on a loan to be repaid in perpetuity.

There is implicit in rental arrangements an interest rate which incorporates the concept of the cost of borrowing funds payable in perpetuity. It can be calculated as the ratio of annual rent payment to purchase price. The upper limit to this ratio should not exceed the mortgage rate, since if rents are permitted to rise too high, individuals would opt to purchase rather than rent.

The Property Review 1988 published by the Rating and Valuation Department contains data on the average price and rent of domestic units on a quarterly basis. Using the data for class "B" units (domestic units of between 40 and 69.9 square metres), we can calculate the implicit interest rates as in Table 3.

Table 3

RELATIONSHIP BETWEEN RENTAL PAYMENT AND PURCHASE PRICE
CLASS B: DOMESTIC UNITS OF 40 - 69.9 SQ. METRES

Year	Average Rental/m ² Monthly	Average Purchase Price/m ²	Implicit Interest Rate ^a	Actual Mortgage Rate
	HK\$	HK\$	%	%
86 Q1	62.4	7416	10.1	8.3
Q2	64.1	7490	10.3	8.8-9.3
Q3	67.0	7703	10.4	7.8-8.8
Q4	65.9	8179	9.7	7.8
87 Q1	66.5	8810	9.1	7.3-8.8
Q2	73.0	9096	9.6	7.3-8.8
Q3	78.1	9588	9.8	8.8
Q4	78.3	9474	9.9	6.5-9.5
88 Q1	78.4	10210	9.2	6.5-7.3
Q2	82.8	10364	9.6	7.3-9.8

Source: Property Review 1988, Rating and Valuation Department, Hong Kong

^aCalculated as the percentage of average annual rental to average purchase price

Since 1986 the implicit interest rate has been higher than the actual mortgage rate. This encourages households in need of accommodation to opt for purchasing rather than renting, thereby obtaining the

property title and security of a relatively fixed payment schedule, rather than paying rentals to the landlord. Low mortgage rates in recent years have provided an additional incentive for preferring to purchase rather than rent property.

Income

Real per capita GDP in Hong Kong increased at an average growth rate of 6.4 percent per annum between 1977 and 1987. The figures are shown in Table 4.

Growth has been particularly strong since 1986 and, last year, GDP growth was estimated at just over 7 percent in real terms. Between 1981 and 1988, median household income rose from HK\$3,084 to HK\$6,850 per month, an increase of 122 percent. It is expected to increase by a further 13 percent to HK\$7,740 a month in 1989 (see Table 5). Coupled with other factors such as speculation, the property market has been propelled to a historic high.

Table 4
GROWTH OF REAL PER CAPITA GDP

Year	Real Per Capita GDP	% Growth
1977	22,062	
1978	23,723	7.5
1979	25,081	5.7
1980	27,075	8.0
1981	28,936	6.9
1982	29,350	1.4
1983	30,785	4.9
1984	33,374	8.4
1985	32,980	-1.2
1986	36,350	10.2
1987	40,665	11.9

Source: Hong Kong Monthly Digest of Statistics, August 1988, Census and Statistics Department, Hong Kong.

Affordability

Affordability means the capability of households to meet the cashflow requirements of funding a mortgage. Such a measure is dependant on income, property price and mortgage terms. To investigate affordability, we use the ratio of the average monthly mortgage repayment divided by the median household income.

Consider the case of a household that has decided to purchase a flat of 500 square feet. At 80 percent financing with repayment spread over 15 years, the affordability ratios can be analysed as per Table 5. From this analysis, we can observe that the affordability ratio in 1988 is still far below the peak reached in 1981. Thus it can be said that property prices and mortgage rates, though on a rising trend, have not reached the point where they will create a negative impact on the demand for residential property. Indeed, the vacancy factor showed a steady decrease from 1981 to 1988 (see Table 5), implying

Table 5

ANALYSIS OF SMALL/MEDIUM SIZED RESIDENTIAL PROPERTIES

	<u>1976</u>	<u>1977</u>	<u>1978</u>	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u>	<u>1985</u>	<u>1986</u>	<u>1987</u>	<u>1988E</u>	<u>1989E</u>
No. of Units Built	14620	19700	24385	26335	22690	30975	20640	19020	20870	27950	31550	32360	34050	35700
No. of Units Taken-up	14655	18410	24445	21240	19300	16800	18100	24400	20650	27500	28500	32450	33000	32000
No. of Units Vacant	7130	8420	8085	12855	14980	26780	27380	21130	19535	19350	21400	20005	21055	24755
Total Stock Year-end	348295	365725	388480	416420	437600	467300	486800	501740	517375	544690	575265	606360	640410	676110
Vacancy Factor	2.04	2.30	2.08	3.08	3.42	5.73	5.62	4.21	3.77	3.55	3.72	3.29	3.28	3.66
Monthly Average Rent (HK\$/sq.ft.)	1.68	1.92	2.29	3.31	5.23	6.67	6.70	6.10	5.40	6.10	6.60	7.26	8.80	10.20
Average Sale Price (HK\$/sq.ft.)	298.00	340.77	419.76	721.81	930.92	1057.93	834.90	683.30	589.00	703.60	765.07	938.00	1200.0	1426.00
Inflation (Y-O-Y %)	3.3	5.9	5.9	11.7	15.5	15.8	10.6	9.8	8.2	3.2	3.3	5.5	8.5	10.0
Median Household Income (HK\$ Monthly)	N.A.	1612	1811	2213	2645	3084	3694	4194	4508	4930	5410	6096	6850	7740
Average Mortgage Rate (%)	7.50	6.25	7.25	13.75	15.00	18.75	15.50	13.50	13.75	9.50	8.25	8.00	9.25	11.25
Affordability Ratio *	N.A.	72.4	84.6	171.6	197.0	228.4	129.6	84.6	68.7	59.6	54.8	58.8	72.1	85.0

* Affordability Ratio : Monthly Mortgage Payment/Monthly Median Household Income, on assumptions of acquiring a 500 sq.ft. apartment at prices and mortgage rates prevailing at the time with 80% financing over a 15-year period.

Source: Merrill Lynch, Pierce, Fenner & Smith Inc., Cheung Kong (Holdings) Ltd: Company Update & Outlook
For Residential Property in Hong Kong, 13 January 1989.

that the rate of absorption has been higher than the rate of supply.

Conclusion

From the above analysis, it can be concluded that the demand for small/medium sized residential properties will be sustained in the near future. Hence, buyers of such properties will become the prime prospects for banks offering home mortgage loan products.

CHAPTER IV

COMPETITIVE PRODUCT REVIEW

Introduction

According to Kotler, a product is "anything that can be offered to a market for attention, acquisition, use, or consumption that might satisfy a want or need." ¹ It is no simple matter to define the product in the context of the banking industry. For the purpose of this study, a banking product is defined as:

"a service or package of services that:

1. is typically provided for any one consumer by one bank only (that is, the customer does not normally purchase different parts of the package from different banks), and
2. is aimed at a particular market."²

¹Kotler (1984), p.463.

²Meidan (1984), p.93.

According to this definition, a home mortgage loan and ancillary services would constitute a single product, as a consumer would not normally purchase different aspects of this package from different banks.

As its name implies, a home mortgage loan is intended for someone who purchases a property for self-occupation (including occupation by family members) and who requires mortgage financing to cover the purchase price. Because of its low risk and high demand, the home mortgage business has attracted substantial interest from the banks and the market has become highly competitive as new mortgage suppliers enter the field.

Traditionally, the home mortgage market was the stronghold of a few banking groups with extensive branch networks, including HongkongBank, Hang Seng and the Bank of China Group.¹ However, other banks have become increasingly active in this market and stepped up their marketing efforts. New products have been

¹Hong Kong Economic Times, 28 December 1988, p.2

introduced and heavy promotional campaigns launched. One of the effects of this high level of competition has been that mortgage rates have been pushed down from the Standard Mortgage Rate (SMR), i.e. Best Lending Rate (BLR) plus 1.25 percent, to as low as BLR plus 0.75 percent.

Apart from reducing rates, some banks also offer other gimmicks to attract new customers. These include free insurance, furniture coupons, free credit cards etc. Other important marketing tools include product enhancements such as innovative repayment plans.

To facilitate the comparison and analysis of home mortgage loan products from different banks, the following product features have been identified:

1. Interest rate
2. Advance ratio (based on the lower of the purchase price or the bank's valuation of the property)
3. Maximum repayment period
4. Special repayment method (in addition to the standard repayment methods)

5. Valuation fee
6. Fire insurance
7. Penalty for early settlement
8. Penalty for partial repayment
9. Additional financing

Survey Findings

A survey of the products offered by major players in the home mortgage market was conducted through visits to bank branches and telephone enquiries. Details of these findings are shown in Appendix A. It can be seen that the products are very similar in terms of the three key features:

1. Interest rate - mostly BLR + 1%.
2. Advance ratio - usually 90% for new property and about 5 to 10 percentage points lower for old property.
3. Maximum repayment period - mostly 20 years.

However, there are some noticeable differences in three other aspects:

1. Repayment method - in addition to the standard methods of fixed repayment period (with variable instalment amounts) or fixed instalment amounts (with a variable repayment period), some banks e.g. HongkongBank, Chase and Standard Chartered also offer the flexibility of other payment options.
2. Penalty for early/partial repayment - ranges from no penalty to one month's interest.
3. Additional financing - there are many schemes variously packaged as personal loans, top-up loans, decoration loans and overdrafts.

In addition, it should be noted that there are a host of other factors that may affect a bank's competitiveness in the home mortgage market. These include branch network, technological capability, processing efficiency, professionalism of sales personnel etc.

Discussion

Keen competition has forced most banks to converge on the basic mortgage terms, i.e. interest

rate, advance ratio and repayment period. There is very little room for further product differentiation. The margin between the Standard Mortgage Rate and Best Lending Rate has been reduced to a historic low of 1.25 percent, with many customers getting 1 percent or even lower. Any further reduction will seriously erode profitability. The maximum advance ratio has been raised substantially over the past decade and has now reached the point where further increases will be extremely risky. As regards maximum repayment period, most banks now offer up to 20 years, which is as long as most people are willing to spread payment. According to statistics, most mortgages are booked for 10-15 years with only 20 percent of the total having a maturity of 20 years.¹ Although a few banks now offer a maximum repayment period of 25 years, it is unlikely that this will become popular.

Of the other product features, it is now almost a standard practice to waive the handling fee and

¹Hong Kong Economic Times, 28 February 1989, p.22.

valuation fee. Most banks also offer some form of fire insurance free of charge for an initial period. Gimmicks such as giveaways and furniture coupons tend to have a short-lived effect and do not offer any genuine benefits in product differentiation. Although there is still some differentiation in the penalty for early or partial settlement, it is expected that the gap will gradually narrow as competition intensifies.

It seems that the one product feature that offers the greatest potential for differentiation is the repayment method. Due to factors such as funding sources, technological capabilities and manpower constraints, it is no easy task to copy competitors' new payment plans. If used innovatively, this can be turned into a powerful marketing weapon. For example, HongkongBank launched a new home mortgage plan in March 1989 offering a Fortnightly Repayment Option. It was claimed that, for a loan of HK\$500,000 at 11.25 percent interest over 15 years, the customer would save around HK\$100,000 on the interest payment and pay off the loan two years sooner. However, this

payment plan is unlikely to be copied by other banks as a new computer programme has to be developed to implement it.¹

In conclusion, it is expected that the emphasis in the home mortgage market will shift from a "price war" (interest rate reductions) to a "product war" (product re-packaging and innovation). To compete for a bigger slice of the market, banks have to turn to product innovations, supported by advanced computer technology.²

¹Hong Kong Economic Times, 1 March 1989, p.1

²Ibid, p.2

CHAPTER V

CONSUMER ANALYSIS

Introduction

It can be seen from the previous chapter that the products in the home mortgage market are fairly homogeneous and there is little segmental marketing. The home mortgage market in Hong Kong is very competitive and, in order to capture a bigger market share, it is essential for the banks to understand consumer attitudes and behaviour not only in general terms but also by different market segments. Moreover, in order to be responsive to changing consumer needs and to be able to develop and change products to meet such needs, it is vital that they monitor changes in consumer attitudes.

Research Objectives

The research objectives identified for the study are as follows:

1. To examine consumers' attitudes and behaviour relating to residential property
2. To identify their expectations relating to home mortgage products
3. To ascertain their awareness and perceptions of major home mortgage products in the market
4. To indicate usage of home mortgage products and other home buying services
5. To reflect the decision-making process and choice factors relating to the usage of home mortgage products

Research Methodology

In order to understand consumers' awareness, perceptions and buying behaviour relating to home mortgage products, four focus groups were conducted from 23 January 1989 to 12 February 1989. As discussed in Chapter III, buyers of small/medium sized

residential properties were identified as the prime target group for the home mortgage loan market. Four groups of respondents with the following characteristics were selected:

Potential users:

	<u>GROUP 1</u>	<u>GROUP 2</u>
SEX:	Male	Female
AGE:	25 - 40	25 - 40
EDUCATION:	At least secondary education	
HOUSEHOLD INCOME:	HK\$10,000 - HK\$30,000	

Current users:

	<u>GROUP 3</u>	<u>GROUP 4</u>
SEX:	Male	Female
AGE:	25 - 40	25 - 40
EDUCATION:	At least secondary education	
HOUSEHOLD INCOME:	HK\$10,000 - HK\$30,000	

Two versions of the Group Discussion Guide were developed for the above two categories of groups. These are shown in Appendix B.

Research Findings

Purchase of Residential Properties

Residential properties are purchased mainly for self-occupation both in the case of existing users of home mortgage and potential users.

When looked at in more detail there are a number of both emotional and socio-economic factors favouring home ownership. Clearly, "having one's own home" fulfills a basic emotional need for security quite independently of purely economic considerations. Reinforcing this preference was a general feeling that rent is money wasted whereas mortgage payments are investments in a capital asset.

The most important consideration is the family life cycle. Young couples want a place of their own when they get married and this is the time when they buy their first home. As the family grows the household requires more accommodation and this tends to dictate the time of a trade up to larger property.

Decision Making Process On Purchase Of Residential Properties

Source of Information

The most common source of information on available properties is newspaper advertisements placed by developers and agents. Classified advertisements placed by individuals are also scrutinised. Some, mostly current owners, go directly to developers for brochures and leaflets.

It is a common practice for prospective buyers to simply walk around and take a look for themselves. Hence, the presence of showflats is very important. Estate agents are rarely approached for information as they are perceived to be unreliable and no one wants to pay commission. Potential purchasers routinely seek advice from friends and relatives.

Legal Procedures

For potential users the selection of solicitors to handle the purchase and mortgage formalities varies between making one's own choice to consulting friends or relatives who are considered trustworthy or

knowledgeable about such matters. It is suggested that occasionally the developer specifies the solicitors.

Equitable mortgagors usually use the solicitors specified by the developer. In some cases solicitors are introduced by estate agents.

Financing

Source of Finance

While bank mortgages provide the bulk of the finance required to purchase a home, almost all respondents rely on their own savings to secure their initial foothold in the property market. It is rare that home buyers resort to borrowing from their parents or relatives.

Decision Making on Financing

The most influential sources of information are referrals, either from friends or relatives. For equitable mortgages, developers usually specify the financial institution to be used by the buyers. In most cases the mortgage terms will be more competitive

than the prevailing market terms. Hence, most buyers will adhere to the developer's advice. Suggestions by the developer's sales personnel, estate agents or solicitors also carry significant weight in the decision process.

Most of the respondents do look around different banks to check for the best or most preferred mortgage terms. Promotional leaflets and introductions by bank personnel are highly influential in this process. Most of the respondents feel that explanations and introductions by bank personnel are barely adequate.

Timing of Approaching Financier

For existing users it is most commonly observed that they would approach banks or other financial institutions after they have signed the provisional sales and purchase agreement. Some of them would have done preliminary studies by collecting the promotion pamphlets from banks prior to house hunting. Although such action is influential, it is not critically important in the decision-making process.

Mortgage Requirements

The mortgage requirements of potential users vary according to their attitudes towards debt. Some advocate maximising the mortgage amount and prefer a longer repayment period, while others are inclined to take minimum mortgage so as to pay less interest and get out of debt as soon as possible.

The situation is no different for current mortgage users though they appear to be more knowledgeable about the alternative uses of funds which are available when the mortgage is maximised.

Selection Criteria

Potential users of mortgage facilities consider many criteria when selecting a financier. These include:

1. the actual mortgage terms offered
2. the reputation and image of the bank
3. the service offered
4. current relationship

With regard to mortgage terms, potential users look primarily for the lowest interest rate. The

second issue is the amount of mortgage available or offered. The repayment period is not felt to be important so long as it is between 10 - 15 years. The period is important largely in respect of the amount to be paid each month. The borrower wants to repay only as much as he can afford and this may sometimes require extending the period of the mortgage loan.

Some respondents prefer to deal with a bank that is large, reliable and with a good reputation. This makes them, especially females, feel more at ease. Others, however, do not attach much importance to this point since they are borrowing from the bank, not lending to it.

Prospective users do not feel it particularly important to have a current relationship with the lending bank. However, when two or more banks are offering the same terms, borrowers would tend to select the one they currently deal with and with which they are most familiar. Banks are preferred to other financial institutions which have an image of being

less reliable and more expensive (i.e. charge higher interest rates).

Current mortgage users who have already gone through the procedures before are clearly better informed about the realities of financier selection. In some cases, the developer specifies the finance source. Friends and sometimes solicitors can influence the choice but - as in the case of potential users - the deciding factor is the interest rate.

Having undergone the experience already, current users are more demanding in terms of the non-price factors. In selecting a future financier they would also give consideration to:

1. mortgage terms, e.g. flexible repayment options
2. convenience, e.g. a bank with many branches makes it easier to make payments
3. efficiency, e.g. early notification of interest rate changes

Other promotional gimmicks such as free insurance are not important in the decision-making process.

Like potential users, current users will only use their current bank if it is competitive. The image of the bank is an assurance but no more. They also prefer banks to financial institutions but accept the latter if they are known to be subsidiaries of well-known banks.

After-sale Services

The participants agree that it is important to know exactly how much money they owe to the bank, preferably on a monthly basis. All the current users feel that, with the constant fluctuations in interest rates, they are unable to keep track of the outstanding balance of principal they owe to the bank. The general practice of banks in providing only a quarterly or half-yearly statement on the status of the loan is therefore an area of potential improvement in bank service.

Satisfaction

Generally speaking, current users are quite satisfied with the service of the banks they have chosen. However, the following complaints were noted:

1. The banks maintain no contact with the borrower except when asking for monthly payments or chasing for missing payments.
2. If the interest rate goes up, the banks inform borrowers immediately; but if it goes down, there are long delays before the banks notify them.

Attitudes Towards Early/Partial Payment

Those who have experience of making early payment are mostly wealthy and financially sophisticated owners who can afford to take advantage of the scheme. The drawback is the penalty clause, which provides for additional interest or administrative charge. However, such penalties are found to be reasonable in general.

Attitudes Towards Trading Up

Owners with experience of trading up have mainly done so because of insufficient space as their children grow up or as new members join the family. Another reason is to live more comfortably as income increases.

The general view about trading up is that it is not necessary to stay with the same bank. A new decision would be taken considering alternative mortgage products offered by various banks. However, provided that the after-sale service of the first mortgage bank has been satisfactory and its mortgage terms are competitive, most borrowers would have little incentive to change banks.

Home Buying Services

All participants are aware that banks make mortgage facilities available. The other services relating to home purchase are less well-known but the following have been mentioned:

1. insurance
2. legal assistance
3. valuation

Most of them use more than one bank and usually have a savings account, a current account and one or more credit cards. Some have foreign currency accounts and use the safe deposit box service. Some use the same bank for these services as well as for their mortgage, but this is not generally an influential factor in selecting the mortgage bank.

CHAPTER VI

CONCLUSIONS AND RECOMMENDATIONS

Conclusions

From the above analysis, it can be concluded that the demand for residential properties is still on the rise, barring any unpredictable downturn in Hong Kong's economy. The affordability ratio currently shows little sign of deterring potential property buyers, unlike the situation which existed in 1981. Hence, it is expected that the home mortgage loan market will experience a healthy growth in the near future.

Among the respondents, residential properties are purchased largely for self-occupation and their motives for doing so are both emotional and socio-economic. People treat mortgage payments as assets whereas money spent on rents is considered to be wasted. Buying a property is considered as a basic need as well as an investment.

The main source of demand is expected from those who experience a change in family life cycle, in particular young couples who want to own an apartment when they get married. In 1987 some 50 percent of the new supply of residential units were of 40 - 75 square metres in size, and it is expected that the same situation will prevail for the coming years. Therefore, those young couples or young families buying small to medium sized flats are the most important target customers.

On the product/competition side, there is little differentiation among the mortgage terms offered by different banks. The most important decision factor - as confirmed in consumer research - is the interest rate, which is more or less the same among the major banks. Hence, the success of any particular bank will depend on its marketing-mix variables other than pricing. The "price war" is giving way to a "product war" or "promotion war".

From our consumer research it can be seen that referrals from friends, relatives, developers, agents

or solicitors bear the greatest influence in the decision-making process. Therefore, future promotional strategies should be directed towards these channels.

When it comes to selecting their mortgage bank, potential users attach the greatest importance to the actual mortgage terms offered, though they would also consider other factors such as the bank's reputation and standard of service. Current users are more demanding in terms of non-price factors, though interest rate is still their primary concern.

Recommendations

Given the fierce competition for mortgage business, the marketing concept has rapidly gained acceptance in the banking industry and more and more resources are being deployed in marketing activity. In adopting the marketing concept, banks must recognize that their customers are changing in terms of their needs, wants, expectations and problems. Banks must define these in explicit terms and then

design their marketing programmes accordingly in order to satisfy customers' needs at a profit.

Traditionally the marketing-mix variables are grouped into the 4 Ps - Product, Promotion, Place and Price. The following recommendations are also organized according to this scheme.

Product Strategies

Product Name

Most people buying a home for the first time consider the purchase as the most important investment in their lives. When launching a new product or relaunching existing ones, the banks should consider changing the product name to, say, a "home investment plan" rather than simply a mortgage loan. This would help to break the psychological barrier that the mortgage repayment is a financial burden.

Repayment Options

Like the Fortnightly Repayment Option recently introduced by HongkongBank, innovations in this area can be developed to appeal to specific market

segments. For example, a "sliding repayment scheme" with phased increases in repayments may well suit the needs of the "yuppies" who want to maximize present enjoyment and yet expect to be able to pay for it later as their income rises. In the first phase they may even be allowed to pay interest only.

The key suggestion here is that banks should offer a range of repayment options for their customers choice. The days when banks could dictate their terms to customers are gone forever and banks must now offer maximum choice and flexibility. For those customers that offer extra security, e.g. autopay salary accounts with a monthly income over a certain level, preferential terms can be offered.

Advance Ratio

For those buying old properties, a low advance ratio can present a major obstacle. One way to attract such customers is to increase the advance ratio depending on some pre-set criteria, e.g. income proof, marketability of the properties concerned, trading up using the same bank (with a good repayment record).

Service

Many banks take a considerable amount of time to determine the advance amount. Those which stand out from their competitors by making fast decisions are more likely to win the business. To speed up the process, an enquiry unit can be set up and linked via a hot-line service to the bank's branches. Such a unit should be equipped with well-trained staff and a comprehensive database which is constantly updated.

As customers are more concerned with their outstanding loan balance rather than the repayment schedule, the former should be reported to the customers more frequently, preferably on a monthly basis. The latter can be provided on a half-yearly or yearly basis. Moreover, banks should take advantage of the monthly statement mailings to keep their customers informed of the latest developments in their mortgage services. This will not only give a good impression of the bank's after-sale service but also help to introduce new customers.

Promotion Strategies

Advertising

The principal mission of advertising is to help move consumers to take action. Its basic roles are to inform and to persuade. In the context of banking, advertising can be counted upon to generate telephone enquiries and visits to branches, but no more. Hence, the advertising message should be single-minded with the sole purpose of arousing consumer interest. The key benefits should be mentioned but the message should not be cluttered with all the other details. Moreover, the target audience should be clearly identified as either potential users or current users, since these two groups have different needs and attitudes.

Collateral Materials

High quality promotional materials such as posters, tent cards and pamphlets should be produced to supplement the advertising programme. Since referrals are an important source of information for most buyers, special efforts should be made to reach the consumers through the following channels:

1. Developers - negotiate a deal to set up sales counters or display posters and pamphlets at their sales offices
2. Estate agents and solicitors - build up good relations with them and consider hiring space in their offices to display posters and pamphlets
3. Existing clients - send direct mailings to them on product updates and on auspicious occasions such as house-warming or birthdays to add a personal touch

Cross-selling

Direct mailing to existing non-mortgage customers may help to generate new business. To make it cost-effective, the potential targets should be selected carefully, e.g. autopay salary account holders with a certain monthly income, VISA Gold cardholders, fixed deposit account holders etc.

Home Buying Fairs

To enhance the professional image of the bank and generate press publicity, home buying fairs can be organized in busy commercial centres. Such fairs

should cover all aspects of the home buying process through exhibition stands, video seminars and personal counselling.

Special Markets Promotions

It seems that life-cycle segmentation offers considerable potential in adopting segmented marketing strategies. For example, an incentive scheme can be offered to young married couples setting up a first home by giving away, say, discount coupons worth over HK\$10,000.

Sales Training

All of the above activities must be supported by a strong sales/customer service team. It is important that sufficient briefing and training be given to all staff concerned before launching a new product or major promotion.

Place Strategies

The main distribution channel for a bank are its branches. To cater for key target customers, many banks have created special units such as personal

financial centres within branches to give personalized services. Similarly, to create a professional image banks can set up a "home buying centre" in a few selected branches to provide dedicated services. This could be simply a designated counter within the personal financial centre or a totally separate unit. As first-time buyers have a general distrust towards the estate agents, such home buying centres can serve as their first point of contact in their house hunting process. Once the bank has built up a relationship with the potential buyers, it is much easier for it to clinch their mortgage business when they decide to buy a flat.

Price Strategies

There is not much room to reduce the mortgage rate further and the common consensus in the banking industry is that the profit margin is already low enough. However, incentive schemes by way of interest remissions (a form of price cutting) can be used on a selective basis to attract new customers and keep

existing ones. For example, when a current customer sells his flat and settle his loan early the following scheme can be adopted:

1. If he induces the new buyer to take out a mortgage loan with the bank, the interest portion of his last monthly repayment may be waived.
2. If he is trading up and buying a new flat, the interest portion of his first monthly repayment may be waived if he stays with the bank and takes out a new mortgage loan.

Limitations of Present Study

As mentioned earlier, this research is exploratory in nature due to time and manpower constraints. The focus group method does not allow the involvement of enough respondents who are representative of the larger consumer groups to draw definitive conclusions. Also, it is not possible to observe any patterns of differences between the attitudes and behaviour of different consumer groups which might point to market segmentation strategies.

An added problem is that banks are reluctant to give away commercial information other than what has already been made public. This makes it difficult to relate the group discussion findings to practical marketing issues and operational considerations. Hence, some of the recommendations given above may not be entirely practical.

Implications for Future Research

The next step will be a quantitative study of consumer attitudes and behaviour using survey research methods. It is also recommended that further research be carried out to answer two questions that are not adequately dealt with in the present study:

1. Is the home mortgage market large enough for segmentation? If so, how should it be segmented?
2. Can the home mortgage product be further differentiated? If so, how should it be done?

Given a better understanding of the above questions, a

bank will then be in a position to determine its market coverage strategy after assessing its own strengths and weaknesses and those of its competitors. According to Kotler, there are three basic market coverage strategies:

1. Undifferentiated marketing - ignore market segment differences and offer the whole market a single product
2. Differentiated marketing - operate in several segments of the market and design separate products to each
3. Concentrated marketing - go after a large share of one or a few submarkets¹

Once the market coverage strategy has been selected, the bank can then proceed to decide its product positioning and marketing mix accordingly.

¹See Kotler (1984), p.269-270

HOME MORTGAGE LOAN - PRODUCT HIGHLIGHTS (1)

	HONGKONGBANK	STANDARD CHARTERED
INTEREST RATE		
- NEW PROPERTY	BLR + 1% (below 5 years)	BLR + 1% (below 5 years)
- OLD PROPERTY	BLR + 1% (5-10 years) BLR + 1% (over 10 years)	BLR + 1% (5-10 years) BLR + 1% (over 10 years)
ADVANCE RATIO		
- NEW PROPERTY	90%	90%
- OLD PROPERTY	90% 80%	85% 80%
MAX. REPAYMENT PERIOD		
- NEW PROPERTY	20 years	20 years
- OLD PROPERTY	15 years 15 years	20 years 15 years
SPECIAL REPAYMENT METHOD	<ul style="list-style-type: none"> - Phased Repayment Scheme: loan period is divided into 3 equal phases; monthly repayments remain fixed in the first 2 phases but will be adjusted with the mortgage rate in the final phase. - Fortnightly Repayment Option: half of the monthly payment is re-paid every two weeks 	<ul style="list-style-type: none"> - Multi-Tier: repayment period is 15 years max. and divided into 3 tiers where monthly instalment will be increased from the 1st tier to the 2nd and then the 3rd. - Reducing Balance
VALUATION FEE	Free	<ul style="list-style-type: none"> - Free for successful applicant - If not, valuation fee is to be recovered.
FIRE INSURANCE	Free for 1st year	An overall package arranged by the Bank and customers charged at a standard rate of 0.11% on the original loan amount.
PENALTY FOR EARLY SETTLEMENT	Within 3 months of drawdown, admin. fee of \$2,500 charged	Within 2 months of drawdown, penalty of \$3,000 charged.
PENALTY FOR PARTIAL SETTLEMENT	No penalty.	No penalty. One month's notice required and repay at least 10% of outstanding loan amount.
ADDITIONAL FINANCING	<ul style="list-style-type: none"> - Decoration loan: up to \$100,000 at 0.9% flat rate per month for those earning HK\$3,000 or more. - Home Owners' Overdraft: up to \$75,000 at BLR + 4% plus annual fee at 0.5% of credit line for those earning over \$8,000. 	<ul style="list-style-type: none"> - Equity line of credit: up to the difference between max. mortgageable value (80% of current valuation) and the outstanding mortgage amount at BLR + 4%; subject to yearly review.

HOME MORTGAGE LOAN - PRODUCT HIGHLIGHTS (2)

	HANG SENG FINANCE	BANK OF EAST ASIA
INTEREST RATE - NEW PROPERTY - OLD PROPERTY	BLR + 1.25% (below 5 years) BLR + 1.25% (over 5 years)	BLR + 1% (newly completed) BLR + 1% (2-5 years) BLR + 1.25% (over 5 years)
ADVANCE RATIO - NEW PROPERTY - OLD PROPERTY	up to 90% up to 80%	up to 90% 80% 70%
MAX. REPAYMENT PERIOD - NEW PROPERTY - OLD PROPERTY	20 years 20 years	20 - 25 years 20 years (max tenure minus age of property) 15 years
SPECIAL REPAYMENT METHOD	Nil	Nil
VALUATION FEE	Free	Free
FIRE INSURANCE	Free for the first year	Free for the first year for newly completed properties.
PENALTY FOR EARLY SETTLEMENT	Nil	Nil
PENALTY FOR PARTIAL REPAYMENT	Nil	Nil (min repayment amount HK\$50,000)
ADDITIONAL FINANCING	Nil	Personal loan - interest: 12% flat p.a. - loan amount: 5% of property valuation or up to 4 times monthly salary, whichever is lower - to be repaid within 24 months

HOME MORTGAGE LOAN - PRODUCT HIGHLIGHTS (3)

	INT'L BANK OF ASIA	SECURITY PACIFIC ASIAN BANK
INTEREST RATE		
- NEW PROPERTY	BLR + 1% (below 7 years)	BLR + 1%
- OLD PROPERTY	BLR + 1% (over 7 years)	BLR + 1% (over 5 years)
ADVANCE RATIO		
- NEW PROPERTY	90%	90%
- OLD PROPERTY	80%	85%
MAX. REPAYMENT PERIOD		
- NEW PROPERTY	20 years	20 years
- OLD PROPERTY	15 years	20 years
SPECIAL REPAYMENT METHOD	Nil	<ul style="list-style-type: none"> - Two-Step Repayment Plan: customer to repay interest only during the first 2 years and start to repay both principal and interest from the 3rd year. - Combined Instalment/Overdraft Repayment Plan: the advance is split into 70% mortgage loan and 30% overdraft.
VALUATION FEE	Free	Free
FIRE INSURANCE	Free for the first year	
PENALTY FOR EARLY SETTLEMENT	Within 1 year - 1 month's interest on outstanding loan amount	1% on the outstanding loan amount
PENALTY FOR PARTIAL REPAYMENT	Nil	1% on the repayment amount
ADDITIONAL FINANCING	Top-up loan: <ul style="list-style-type: none"> - min HK\$50,000 - max 80% of current valuation less outstanding loan amount - interest rate: BLR + 2% 	Nil

HOME MORTGAGE LOAN - PRODUCT HIGHLIGHTS (4)

	CITIBANK	CHASE MANHATTAN BANK
INTEREST RATE - NEW PROPERTY - OLD PROPERTY	BLR + 1.25% (below 10 years) BLR + 1.25% (10-15 years) BLR + 1.25% (15-20 years)	BLR + 1% (below 6 years) BLR + 1% (6-10 years) BLR + 1.25% (above 10 years)
ADVANCE RATIO - NEW PROPERTY - OLD PROPERTY	90% (85% if no income proof) 80% (75% if no income proof) 70% (65% if no income proof)	90% 85% 80%
MAX. REPAYMENT PERIOD - NEW PROPERTY - OLD PROPERTY	20 years 15 years 10 years	20 years 20 years 15 years
SPECIAL REPAYMENT METHOD	Nil	Nil
VALUATION FEE	Free	e.g. value \$500,000 - fee \$300 \$800,000 \$400
FIRE INSURANCE	Standard rate of 0.1275% on the original loan amount	Standard rate of 0.165% on the original loan amount (second year fire insurance is free)
PENALTY FOR EARLY SETTLEMENT	Over 1 year - no penalty Within 1 year - 1 month's interest on outstanding loan amount	Over 2 years - no penalty Within the 2nd year - 1% on the outstanding loan amount Within the 1st year - 1% on the original loan amount
PENALTY FOR PARTIAL REPAYMENT	Min repayment amount \$30,000 Within the first year - no penalty if repay 10% - 25% of loan amount; 1 month's interest on the amount repaid if repay over 25%	Min repayment amount \$50,000 Over 2 years - no penalty Within the first 2 years - 1% on the amount repaid
ADDITIONAL FINANCING	- Personal Loan (max \$50,000) charged at 0.9% flat p.m. provided the aggregate credit facilities do not exceed 90% of the property valuation. - Overdraft (max \$10,000) charged at 0.8% p.m. subject to same restriction above.	Home Improvement Loan: - max loan amount \$80,000 or 2.5 months salary - interest at 1% p.m.

HOME MORTGAGE LOAN - PRODUCT HIGHLIGHTS (5)

	NANYANG COMMERCIAL BANK	BANK OF COMMUNICATIONS
INTEREST RATE		
- NEW PROPERTY	BLR + 1%	BLR + 1%
- OLD PROPERTY	BLR + 1.25% (over 5 years) (Civil servants and teachers are offered with BLR + 0.5% or 0.75%)	BLR + 1% (over 5 years) (Civil servants are offered with BLR + 0.5% or 0.75%)
ADVANCE RATIO		
- NEW PROPERTY	90%	90%
- OLD PROPERTY	Up to 90%	70% - 80%
MAX. REPAYMENT PERIOD		
- NEW PROPERTY	20 years	20 years
- OLD PROPERTY	20 years (75% advance) 15 years (80% advance)	12 - 15 years
SPECIAL REPAYMENT METHOD	Nil	Nil
VALUATION FEE	\$100	Free for newly completed property.
FIRE INSURANCE	Free for the first year (newly completed property only)	Nil
PENALTY FOR EARLY SETTLEMENT	Within 1 year - 1 month's interest on outstanding loan amount	Within 1 year - 1 month's interest on outstanding loan amount
PENALTY FOR PARTIAL REPAYMENT	Min repayment amount \$10,000 Within 1 year - 1 month's interest on amount repaid	Within 1 year - 1 month's interest on amount repaid
ADDITIONAL FINANCING	Nil	Nil

APPENDIX B

DISCUSSION GUIDE

(POTENTIAL HOME BUYERS)

1. Ask group members to introduce themselves and explain the roles of the moderator and participants of a Focus Group Discussion.
2. Explain the purpose of the Group: To understand consumers' awareness, perceptions and buying behaviour relating to home mortgage products.
3. Warm-up: Current residence pattern
 - living arrangement (rented, quarters, etc)
 - family size and with whom
 - length of stay
4. Purchase of residential properties
 - Intention and purposes
 - rental/investment
 - self-occupied
 - speculation
 - Motivations/reasons relating to buying properties for self occupation
 - rent going up

- life cycle
 - getting married
 - children growing up
- can afford it now
- housing assistance scheme
- psychological
 - want to have one's own home
 - want to have roots
- sick of moving around
- prices going up, have to buy now

5. Decision-making Process on purchase of properties

- Source of information/advice and relative importance
 - advertisements
 - developer
 - friends/relatives
 - agents
- Media through which to get information on property/mortgage:
 - TV
 - Newspapers
 - Magazines
- Decision-maker
 - who
 - jointly or singly
- Areas where help most needed

6. Financing of Purchase

- Source of finance
 - savings
 - parents/relatives
 - employers
 - mortgage
- Mortgage Requirements
 - loan amount: maximize or minimize
 - repayment period: longer or shorter; most preferred period
- Selection criteria of financier
 - referrals (from whom): solicitors, property agents, friends/relatives etc. influence of advertising/publicity
 - mortgage terms
 - advance ratio
 - interest rate
 - repayment method) flexibility
 - repayment period) "
 - early/partial repayment penalty
 - charges: valuation, fire insurance etc.
 - gimmicks
 - waiver of charges
 - free insurance
 - gifts such as telephone set
 - furniture coupon
 - decoration loans

- service
 - convenience
 - efficiency
 - professionalism
 - ancillary services, e.g. house hunting
 - after-sales service
- image/reputation, reliability
- relative importance of factors
- shopping around for best terms/service
- preference for banks vs financial institutions
- preference for bank of account vs other banks

7. Home buying services available from banks

- awareness of banks that provide home buying services
- areas where help needed from banks
 - mortgage
 - house hunting
 - insurance
 - valuation
 - legal assistance
 - decoration and furnishing loans
- relative importance of above elements

8. Perceived Image of home mortgage products and home-buying services provided by various banks

- Comparison of various banks

(HK Bank, Standard Chartered, Hang Seng, BOC Group, American banks, Chinese local banks, Japanese banks)

- strengths & weaknesses

- likes and dislikes

- perceived differences in products/services offered, interest rate etc.

DISCUSSION GUIDE

(EXISTING OWNERS/MORTGAGERS)

1. Ask group members to introduce themselves and explain the roles of the moderator and participants of a Focus Group Discussion.
2. Explain the purpose of the Group: To understand consumers' awareness, perceptions and buying behaviour relating to home mortgage products.
3. Warm-up: Current ownership pattern
 - status of ownership
 - fully owned
 - once mortgaged now fully owned
 - mortgaged
 - initially equitable mortgage
 - length of ownership
4. Last purchase of residential properties
 - Purposes
 - rental/investment
 - self-occupied
 - speculation
 - Motivations/reasons relating to buying properties for self occupation
 - rent going up

- life cycle
 - getting married
 - children growing up
- can afford it
- housing scheme
- psychological
 - wanted to have one's own home
 - wanted to have roots
- sick of moving around
- prices going up, good time to buy

5. Decision-making Process on last purchase of residential properties

- Source of information/advice and relative importance
 - advertisements
 - developer
 - friends/relatives
 - agents
- Media through which to get information on property/
mortgage:
 - TV
 - Newspapers
 - Magazines
- Decision-maker
 - who
 - jointly or singly

- Legal procedure
 - selection of solicitors
 - fees
- Problems encountered
- Areas where help most needed

6. Financing of Purchase

- Source of finance
 - savings
 - parents/relatives
 - employers
 - mortgage
- Mortgage Requirements
 - loan amount: maximize or minimize
 - loan period: longer or shorter; most preferred period
- Decision-making re financing
 - source of information
 - joint vs sole decision
 - problems encountered
- When did you first approach a bank?
 - before house hunting
 - during house hunting
 - after signing Provisional Sales & Purchase Agreement
- Selection criteria of financier
 - referrals (from whom): solicitors, property agents, etc. influence of advertising/publicity

- mortgage terms
 - advance ratio
 - interest rate
 - repayment method) flexibility
 - repayment period) "
 - early/partial repayment penalty
- charges: valuation, fire insurance etc.
- gimmicks
 - waiver of charges
 - free insurance
 - gifts such as telephone set
 - furniture coupon
 - decoration loans
- service
 - convenience
 - efficiency
 - professionalism
 - ancillary services, e.g. house hunting
 - after-sales service
- image/reputation, reliability
- relative importance of factors
- shopping around for best terms/service
- preference for banks vs financial institutions
- preference for bank of account vs other banks
- Bank and Mortgage product chosen and reasons

- Satisfactions and dissatisfactions

- Other financial services required

7. Home buying services available from banks

- awareness

- services(s) used and reasons

- house hunting

- insurance

- valuation

- legal assistance

- decoration and furnishing loans

8. Perceived Image of home mortgage products and home-buying services provided by various banks

- awareness

- comparison of various banks

- (HK Bank, Standard Chartered, Hang Seng, BOC Group, American banks, Chinese local banks, Japanese banks)

- strengths & weaknesses

- likes and dislikes

- perceived differences in products/services offered

9. Attitudes towards Early/partial repayment

- awareness

- experience and reasons

- intention to use and reasons

- perceived drawbacks

10. Trading Up

- experience and reasons
- financial services required
- selection criteria for trade-up bank (any differences from selection for regular mortgage)
- stay with same bank or a different bank and reasons

11. Usage of other Bank Products

- number of banks used
- products used
- all in same or in different banks
- in same or different bank as mortgage bank and reasons

Periodicals

Plesner, Susan G. "Personal Banking : What It Takes to Make It Profitable." Bank Administration, June 1986, pp 46-47.

Galvin, Patrick and White, John, "Shares and NAVs Worlds Apart." BNP Pacific, November 1988, pp 24-27.

Hong Kong Economic Journal, various issues.

Hong Kong Economic Times, various issues.

Hongkong and Shanghai Banking Corporation, "Hong Kong's Property Market - Greater Stability Likely." Hong Kong Economic Report, June 1987.

HS Property Management Ltd. Property Market Review, Jan - Jun 1988, Hong Kong, August 1988.

Hsu, Gen-lin and Ho, Suk-ching. "Advertising by Banks in Hong Kong : A Content Analysis." The International Journal of Bank Marketing, Vol. 6, No. 2, 1988.

BIBLIOGRAPHY

Books

- Kotler, Philip. Marketing Management: Analysis, Planning and Control. 5th ed. Englewood Cliffs, New Jersey: Prentice Hall, 1984.
- McIver, Colin and Naylor, Geoffrey. Marketing Financial Services. London: Institute of Bankers, 1980.
- Meidan, Arthur. Bank Marketing Management. London: Macmillan, 1984.
- Runyon, Kenneth E. and Stewart, David W. Consumer Behavior. 3rd ed. Columbus, Ohio: Merrill Publishing, 1987.
- Schiffmann, Leon G. and Kanuk, Leslie L. Consumer Behavior. 3rd ed. Englewood Cliffs, New Jersey: Prentice Hall, 1987.
- Williams, Keith C. Behavioural Aspects of Marketing. London: Heinemann, 1981.

Periodicals

- Fisher, Susan G. "Personal Banking : What It Takes to Make It Profitable.", Bank Administration, June 1986, pp 46-47.
- Galvin, Patrick and Butt, John, "Shares and NAVs Worlds Apart.", BZW Pacific, November 1988, pp 24-27.
- Hong Kong Economic Journal, various issues.
- Hong Kong Economic Times, various issues.
- Hongkong and Shanghai Banking Corporation. "Hong Kong's Property Market - Greater Stability Likely." Hong Kong Economic Report, June 1987.
- HS Property Management Ltd. Property Market Review, Jan - Jun 1988, Hong Kong, August 1988.
- Hsu, Dan-lin and Ho, Suk-ching. "Advertising by Banks in Hong Kong : A Content Analysis." The International Journal of Bank Marketing, Vol. 6, No. 2, 1988.

- Laroche, Michel and Taylor, Thomas. "Empirical study of Major Segmentation Issues in Retail Banking." The International Journal of Bank Marketing, Vol 6, No. 1, 1988.
- Lee, Kam Hon. "Marketing Research By Objectives." Hong Kong Manager, February 1980, Vol.6, pp 8-11.
- Merrill Lynch, Pierce, Fenner & Smith Inc. Cheung Kong (Holdings) Ltd: Company Update and Outlook for Residential Property in Hong Kong, 13 January 1989.
- Tai, Lawrence S. T. "Price and Non-price competition of Commercial Bank Services in Hong Kong: Implications for Bank Marketing." Hong Kong Manager, Vol.22 August/September 1986, pp 33-43.

Government Publications

- Census and Statistics Department, Hong Kong Monthly Digest of Statistics, various issues.
- Rating and Valuation Department, Property Review 1988.

CUHK Libraries



000301045